

**REPUBLIC OF KENYA**

**MANDERA COUNTY GOVERNMENT**



**OFFICE OF THE COUNTY EXECUTIVE COMMITTEE  
FINANCE AND ECONOMIC PLANNING**

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**COUNTY BUDGET REVIEW AND OUTLOOK PAPER  
(CBROP)**

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**SEPTEMBER, 2023**

## **ABBREVIATIONS**

<b>CBROP</b>	County Budget Review and Outlook Paper
<b>CFSP</b>	County Fiscal Strategy Paper
<b>FY</b>	Financial Year
<b>PFMA</b>	Public Financial Management Act
<b>CIDP</b>	County Integrated Development Plan
<b>CRA</b>	Commission on Revenue Allocation
<b>GDP</b>	Gross Domestic Product
<b>IFMIS</b>	Integrated Financial Management and Information System
<b>SME</b>	Small and Medium Enterprise
<b>MTEF</b>	Medium Term Expenditure Framework
<b>SRC</b>	Salaries and Remuneration Commission
<b>CPSB</b>	County Public Service Board
<b>KDSP</b>	Kenya Devolution Support Program
<b>PPP</b>	Public Private Partnership
<b>OSR</b>	Own Source Revenue
<b>SWG</b>	Sector Working Groups
<b>KSHS</b>	Kenya Shillings
<b>COB</b>	Controller of Budget
<b>BPS</b>	Budget Policy Statement
<b>DANIDA</b>	Danish International Development Agency
<b>KCSAP</b>	Kenya Climate Smart Agriculture Project
<b>ASDSP</b>	Agriculture Sector Development Support Project
<b>KUSP</b>	Kenya Urban Support Project

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## **FOREWORD**

This County Budget Review Outlook Paper (CBROP) was prepared as required by section 118 of the Public Finance Management Act, 2012. It reviews the actual fiscal performance of the financial year 2022/2023 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP) of February, 2023.

In reviewing the fiscal performance, this paper analyzes the performance of County Own generated revenue in the FY 2022/2023. It has included the total revenue collected and made comparison to the budgeted revenue for the same year. In addition, possible causes of the underperformance in the local revenue are also highlighted. The paper also provides ministerial expenditures for both recurrent and development for the year under review. A comparison of actual performance against targets for FY 2022/2023 is provided. The preparation of this CBROP will be an important tool that will help in the formulation of 2024/2025 budget and will also provide foundation for the 2024 CFSP.

Through proper planning, Mandera County Government intends to achieve maximum fiscal discipline that ensures proper management of public resources and delivery of expected output. To ensure transparency and accountability, the County Executive will involve and relay budget performance and management reports to all county stakeholders as required by the constitution of Kenya, 2010 and Public Finance Management Act, 2012.

The FY 2022/2023 was faced with several challenges such as high debt burden at the National level, late disbursement of funds by the National Government, increased terrorism activities and insecurity challenges in the County as well as persistent droughts that caused destruction of livelihoods, decline in agricultural output and infrastructure. Nevertheless, the County's fiscal performance for the FY 2022/2023 was largely satisfactory compared to the previous financial years.

**Ibrahim Mohamed Adan**

**Executive Committee Member - Finance and Economic Planning**

## Legal Basis for the Publication of the County Budget Review and Outlook Paper

The Mandera County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012 which states that:

- 1) A County Treasury shall;
  - a) prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
  - b) Submit the paper to the County Executive Committee by 30th September of that year.
- 2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify:
  - a) the details of actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
  - b) the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
  - c) information on
    - (i) any changes in the forecasts compared with the CFSP or;
    - (ii) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP for that year; and
  - d) reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
- 3) The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
- 4) Not later than seven days after the CBROP is approved by County Executive Committee, the County Treasury shall:
  - (a) arrange for the CBROP to be laid before the County Assembly; and
  - (b) as soon as practicable after having done so, publish and publicize the paper.

## **Responsibility Principles in the Public Financial Management Law**

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources.

The PFM law (Section 107(b)) states that:

- i. The county government's recurrent expenditure shall not exceed the county government's total revenue
- ii. Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure
- iii. The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations.
- iv. Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- v. Public debt and obligations shall be maintained at a sustainable level as approved by County Government (CG)
- vi. Fiscal risks shall be managed prudently
- vii. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future



## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1 Introduction**

This year's Budget Review and outlook paper (CBROP) is the tenth to be prepared by Mandera County in line with the Public Finance Management Act, 2012 section 118. The CBROP is one of the planning documents that a county must prepare by law. It is supposed to link planning, policy formulation and budgetary allocations.

The PFM Act 2012 requires every County to prepare a CBROP by 30th September of every financial year and submit the same to the County Executive Committee. Upon consideration by the County executive committee, the CBROP must be submitted to the County assembly by the 21<sup>st</sup> October for consideration and approval. As per the requirement of the PFM Act, this CBROP contains a review of the fiscal performance of the FY 2022/2023.

The main goal of this CBROP is to provide a review of the previous year fiscal performance and how this impacts on the financial objectives and fiscal responsibility principles set out in the PFM Act, 2012. This together with the updated macroeconomic outlook provides a basis for revision of the current budget in the context of supplementary estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be provided in the County Fiscal Strategy Paper which will be ready early next year in line with section 117 of PFM Act 2012.

#### **1.2 Objective of the CBROP**

As a planning documents, CBROP endeavors to address several objectives. Key among them is

- a. Provide a review of the County Fiscal performance in the financial year 2022/2023 compared to the appropriation of that year and how this had an effect on the Economic performance of the county.
- b. Provide an updated economic and financial forecast with sufficient information to show any Changes from the most recent forecasts which may have been provided in fiscal documents like the CFSP.
- c. Reasons for any deviations from the financial objectives in the CFSP with the proposals to address the deviation.

### **1.3 The structure of the CBROP**

The CBROP has five chapters. Chapter one includes introduction and objectives of CBROP. Chapter two provides a review of the fiscal performance in FY 2022/2023 and its implications on the financial objectives. This is followed by brief highlights of the recent economic development, updated macroeconomic outlook and County specific outlook in chapter three. Chapter four provides the resources allocation framework while chapter five gives the conclusions and recommendations.

## CHAPTER TWO

### REVIEW OF FISCAL PERFORMANCE IN THE FINANCIAL YEAR 2022/2023

#### 2.0 Overview

This chapter discusses the 2022/2023 budget performance and its implementation. It provides comparisons between actual budget performances against the targeted results. This will be useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as a way forward for Mandera County.

#### 2.0 Fiscal Performance

The County Government's mandate as stipulated by the Constitution of Kenya is discharged by Departments through implementation of projects and programs. These projects and programs are allocated funds through County Budgeting process.

In the FY 2021/2022 the County had a Budget Resource Envelope of Kshs. 12,713,843,988 which comprised of Kshs. 8,427,761,140 (56%) for recurrent expenditure and Kshs. 4,286,082,848 (34%) allocation for development expenditure. The allocation to development was in line with Fiscal Responsibility requirements in the PFM Act, 2012 (section 107) requiring that at least 30% of the County Budget be dedicated for development activities. The County Budget revenues were made up of transfers from the Equitable Share, National Government Conditional Grants, Donor Funding, Own Source Revenues (OSRs) and Unspent Balances carried forward from the 2021/2022 Financial Year.

The County's fiscal performance for the FY 2022/2023 was mostly satisfactory despite existence of numerous challenges occasioned by factors such as fund delays and local revenue underperformance. The County Government in its FY 2022/2023 budget anticipated a local collection of Kshs. 290,436,786 which was about 2% of the County's annual budget. But only Kshs. 123,260,280 which translates to 42% of the targeted collection was realized at the end of the financial year. On other revenue streams, the equitable share of revenue allocated by Commission on Revenue Allocation accounted for Kshs. 11,190,382,598 (100%). Other notable components of the County's revenue included unutilized funds from the previous financial year and Conditional grants.

During the financial year 2022/2023, cumulative revenues received by Mandera County Government from the National Government releases, Conditional Grants, unspent balances in FY 2021/2022 and County own revenue sources amounted to Kshs. 12,532,166,405.

The Controller of Budget approved withdrawal of Kshs. 11,190,382,598 from the County Revenue Fund (CRF) account, which was 100% of the approved allocations. This amount was meant to fund both development and recurrent expenditures.

The County received Conditional Grants amounting to Kshs. 311,677,895 in the reporting period. This comprised of Kshs. 32,885,438 from DANIDA Funding for Health sector, Kshs. 54,721,395 from World Bank – THUSCP, Kshs. 22,000,000 from Financing Locally-Led Climate Action (FLLoCA) program, Kshs. 81,191,951 from Kenya Climate Smart Agriculture Project (KCSAP), Kshs 23,791,072 from Kenya Urban and Institutional Grant, Kshs. 89,064,015 from World Bank Emergency locust response Project(ENRP) and Kshs. 8,024,024 for Agriculture Sector Development Support Project (ASDSP).

The fiscal performance for FY 2022/2023 was promising despite a number of limitations which included;

- a) Delays in disbursement of funds from the National Government thereby delaying implementation of planned County programs.
- b) Under performance of the local revenue. The County collected only Kshs.123,260,280 instead of the budgeted Kshs. 290,436,786. This represents 42% performance. This is way below the revenue target as per the budget. It's also a reduction from Kshs. 132,899,851 which was realized in the financial year 2021/2022.
- c) Recurring IFMIS breakdowns impacting negatively on the County's absorption of funds. This was mostly caused by network interruptions and internet downtimes.
- d) Increased security challenges Countywide which negatively affected many sectors of the County's operations and economy.
- e) The adverse effects of the Covid-19 pandemic, persistent droughts and locust re-invasion.

## 2.1 Revenue Performance

The following table shows revenue analysis for the FY 2022/2023 as realized from local sources and the equitable share from National Government with deviations.

**Table 1: Revenue Analysis**

No	Revenue Stream	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)	Variance (Kshs.)	Remarks
		A	B	C=A-B	
1	Equitable share of Revenue	11,190,382,598	11,190,382,598	-	
2	Local Revenue Collections	290,436,786	123,260,280	167,176,506	42%
3	On-Going Projects funds b/f from 2021/2022	906,845,632	906,845,632	-	
4	Sweden -Agricultural Sector Development Support Program (ASDSP) II - Co Funding	20,314,865	8,024,024	12,290,841	
5	World Bank/Japan Funding for Health sector - Transforming Health care - Universal Health	54,721,395	54,721,395	-	
6	Danida Funding for Health sector - Primary Health care - Universal Health	32,885,438	32,885,438	-	
7	Kenya Climate smart Agriculture Project (NEDI)	81,191,951	81,191,951	-	
8	World Bank Emergency locust response Project(ENRP)	91,274,250	89,064,015	2,210,235	
10	FLLoCA	22,000,000	22,000,000	-	
11	Kenya urban and Institutional Grant KUSP	2,339,915	2,339,914	1	
12	Kenya Urban and Institutional Grant b/f	21,451,158	21,451,158	-	
	<b>TOTAL</b>	<b>12,713,843,988</b>	<b>12,532,166,405</b>	<b>181,677,583</b>	

*Source: County Treasury, Mandera*

By the end of June 2023, some of the projected revenues had been achieved with the exception of Equitable share, Own Source revenues, Sweden -Agricultural Sector Development Support Program (ASDSP) II, and World Bank Emergency locust response Project (ENRP).

An analysis of the table indicates that the County generated a total of Kshs. 290.4 million from own revenue sources in FY 2022/2023 deviating from the budgeted amount by 58%. This amount represented a decrease of Kshs. 9.6 million compared to that realized in FY 2021/2022. The drop in collection of internal revenue is attributed to persistent drought, insecurity

situation, border closures, adverse economic impacts of the Covid-19 menace, and over-ambitious increase revenue targets during the supplementary budgets.

During the reporting period, receipts for equitable share grant was fully realized while Own source collections had 58% deviations from target. Sweden -Agricultural Sector Development Support Program (ASDSP) II, and World Bank Emergency locust response Project (ENRP) also performed poorly. These sources of revenue performed below expectations and hence have impacted negatively on the budget implementation process.

The rest of the revenue source has shown decent performance. The fiscal performance for the FY 2022/2023 was, therefore, considered a great success. The following challenges were, however, notable:

1. Low local revenue performance continued to be major headache for the County Government. The Local revenue underperformed by a whopping 58%.
2. Incidences of insecurity such as frequent terror activities along the major highways and border towns have scaled down County’s economic prospects.
3. Delayed disbursement of funds from the National Government had negatively affected County’s budget execution efforts.
4. The negative economic impacts of the coronavirus pandemic that was experienced in the last two financial periods had caused adverse effects to the course of revenue collection and project implementations.
5. The heavy droughts and famine resulted in destruction of homes, deaths, agricultural output and infrastructure.

**Table 2: FY 2022/2023 Monthly Local Revenue Collections**

<b>FY 2022/2023 Total monthly local revenue collection for Mandera County Government</b>		
<b>Month</b>	<b>Amount Collected</b>	<b>Cumulative collection</b>
2022 July	9,046,204	9,046,204
2022 August	7,586,027	16,632,231
2022 September	8,829,870	25,462,101
2022 October	8,389,103	33,851,204
2022 November	6,870,048	40,721,252
2022 December	7,768,150	48,489,402
2023 January	13,032,293	61,521,695
2023 February	15,099,873	76,621,568
2023 March	13,856,631	90,478,198
2023 April	7,239,553	97,717,752

2023 May	13,587,134	111,304,886
2023 June	11,955,394	123,260,280
<b>Total Collections</b>	<b>-</b>	<b>123,260,280</b>

Source: Revenue Directorate, Mandera County Government

The highest County Own Source Revenue collection was realized in the month of May amounting to Kshs. 17,054,719 followed by February 2023 amounting to Kshs. 15,231,873 and the month of January 2023 in which Kshs. 13,385,663 was collected while the least collection was in the month of March 2023 amounting to Kshs. 6,942,490.

The table 3 summarizes comparisons between actual local revenue collections in FY 2021/2022 and what was realized in the FY 2022/2023.

**Table 3: FY 2022/2023 Revenue Collection by Streams**

**ACTUAL COUNTY OWN GENERATED RECEIPTS**

<b>OSR collections as at June 30, 2023</b>	<b>2021/22 FY Actual Realized</b>	<b>2022/2023 Actual Realized</b>
<b>Sub-Revenue Source</b>	<b>Kshs.</b>	<b>Kshs.</b>
Land rents	28,188,138	23,922,170
Plot Transfers/Sub-Divisions/	15,358,460	15,802,550
Building plan	842,000	3,922,433
Miraa Movements	12,693,123	6,658,820
Single Business Permit	10,537,400	11,808,102
Markets stalls	5,891,650	5,347,710
Market Gates	1,585,800	1,698,810
Market Shades	148,899	189,895
Bus park/Taxis/Parking	1,303,080	1,558,005
Income from Quarries/Natural Resources	1,326,056	1,027,900
Barriers	4,583,413	4,633,063
Livestock Market Auction	1,975,058	3,648,145
Livestock Movement	6,298,755	5,912,978
Slaughter fees and Charges	5,893,958	6,162,515
Produce Cess	854,705	1,106,559
Agriculture Mechanization/Hire of Equipment	169,400	30,000
Income from Sale of Tenders documents	210,944	-
Rental income	1,638,417	960,500
Tender	339,000	81,000
Public Health	574,227	476,322
Hospital collection	29,072,568	27,534,403
Income from Water Management	3,414,800	778,400
<b>Grand Total</b>	<b>132,899,851</b>	<b>123,260,280</b>

Source: Revenue Directorate, Mandera County Government

During the year under review, the total expected revenue from all sources for the county revenue sources was Kshs. 12,713,843,988. Out of this amount, the budgeted amount from local collections was Kshs. 290,436,786 (2%). Despite this budgeted figure, only Kshs.

123,260,280 was realized at the end of financial year. This represented a revenue shortfall of Kshs. 167,176,506 (58% deviation from the approved target). The revenue collection decreased remarkably by Kshs. 9,639,571 compared to FY 2021/2022.

An analysis of local revenue performance shows the County's top performing streams included Hospital collection, Land rents, Plot Transfers/Sub-Divisions/Application Fees, Single Business Permit, Miraa Movements, Slaughter fees and Charges, Markets stalls, Livestock Movement, Barriers, and Building plan. The worst performing streams were Agriculture Mechanization/Hire of Equipment, Public Health, Market Gates/Cess, Tender, and Income from Quarries.

As shown above, the County's local collection has underperformed for the year under review. The following factors were chiefly responsible for the poor performance:

- Closure of quarries, sand and blast sites due to terrorism threats.
- Frequent closure of the Kenya Somalia boarder due to insecurity.
- Lack of enforcement capacity.
- Poor infrastructure that makes the cost of doing business very high. This means few businesses survive in our County.
- Persistent devastating droughts and the resultant famine experienced Countywide has negatively impacted the economic powers of the communities.
- General insecurity that discourages investment in the County.
- Overambitious increase in revenue targets during the supplementary budgets
- Inadequate legislation frameworks to prosecute defaulters.

Concerted effort and focused strategies should be employed by the County Treasury to bridge the gap in attainment of own revenue targets and other revenue sources to avert possibilities of pending bills and incomplete development projects. The County should leverage on the automated revenue collection covering all the streams to eliminate possibility of leakages. The revenue enforcement units should be empowered to ensure all identified sources of revenue are covered and paid to the County Government. Further, revenue collection personnel should be rotated to ensure that no one person is at a specific revenue collection point for a pro-longed period of time.



## 2.2 Expenditure Performance

The County Government's approved supplementary budget for FY 2022/2023 was Kshs. 12,713,843,988. A total of Kshs. 11,998,757,706 was spent on both development and recurrent activities. This absorption accounted for 94% of the total approved supplementary budget. The recurrent expenditure for the year was Kshs. 8,254,047,561 against a target of Kshs. 8,427,761,140. The recurrent budget absorption was 98%, which is above the 96% that was recorded in FY 2021/2022. Development expenditure recorded an absorption rate of 87%, which was an increase from 74% attained in FY 2021/2022. The actual expenditure on development programmes amounted to Kshs. 3,744,710,145 against a budgeted figure of Kshs. 4,286,082,848.

The overall budget execution status for both the development and the recurrent votes was satisfactory for the FY 2022/2023.

**Table 4: Total Expenditure**

Expense Category	Annual Budget (Kshs.)	Total Expenditure (Kshs.)	Variance (Kshs.)	Absorption Rate(%)
Recurrent	8,427,761,140	8,254,047,561	173,713,579	98%
Development	4,286,082,848	3,744,710,145	541,372,703	87%
<b>Total</b>	<b>12,713,843,988</b>	<b>11,998,757,706</b>	<b>715,086,282</b>	<b>94%</b>

*Source: County Treasury, Mandera County*

The variance of Kshs. 715,086,282 led to lower absorption of both recurrent (98%) and development expenditure (87%) by the County Departments. In particular, underperformance by the development vote was occasioned late releases of funds from the National Treasury.

### 2.2.1 Recurrent Expenditure

As stated earlier, the County performed well in the execution of the recurrent budget for the FY 2022/2023. The County had a total recurrent budget of Kshs. 8,427,761,140. Except the County Assembly, all other Ministries were able to absorb above 96% of their recurrent budget within the financial year. Six Ministries recorded an absorption rate of 100% in their expenditure. These included the Ministry of Education, Culture and Sports, the Ministry of Gender, Youth and Social Service, the Ministry of Finance and Economic Planning, the County Public Service Board, the Ministry of Public Service Management and Devolved Unit, and the Ministry of Public Works Roads and Transport. These were followed by the Ministry of Water, Environment and Natural Resources which recorded an

absorption rate at 99% followed by the Ministry of Lands, Housing and Physical Planning, and Office of the Governor and Deputy Governor at 98% each. The Ministry of Trade, Industrializations and Cooperative Development, and the County Assembly were the lowest spender of the recurrent budget during the period at an absorption rate of 95% and 94% respectively. The table that follows shows a tabulated analysis of County's recurrent expenditure for FY 2022/2023.

**Table 5: Recurrent Expenditure by Ministries**

The table below represents total recurrent expenditure for the FY 2022/2023 per ministry as at 30th June, 2023.

<b>Departments</b>	<b>Recurrent (Kshs)</b>	<b>Recurrent Expenditure</b>	<b>%</b>
County Assembly	943,795,562	887,185,466	94%
Agriculture Livestock and Fisheries	309,563,721	307,519,158	99%
Education, Culture and Sports	788,224,398	787,099,360	100%
Gender, Youth and Social Service	596,935,261	596,385,016	100%
Finance	376,504,748	376,233,725	100%
Health Services	2,404,613,192	2,309,271,323	96%
Trade, Industrializations and Cooperative Development	56,988,085	53,935,312	95%
Lands, Housing and Physical Planning	84,123,797	82,622,523	98%
Office of the Governor	461,069,123	452,928,615	98%
County Public Service Board	69,534,470	69,522,112	100%
Public Service Management and Devolved Unit	1,773,042,099	1,770,682,948	100%
Public Works Roads and Transport	182,185,635	181,643,409	100%
Water, Environment and Natural Resources	381,181,049	379,018,594	99%
<b>TOTAL</b>	<b>8,427,761,140</b>	<b>8,254,047,561</b>	<b>98%</b>

*Source: County Treasury, Mandera County Government*

## 2.2.2 Development Expenditure

In the FY 2022/2023, the County's gross development budget was Kshs. 4,286,082,848. An expenditure of Kshs. 3,744,710,145 representing 87% of the development vote was utilized during the financial year. Only two Ministries were able to incur expenditure of 100%. These were the County Public Service Board, and the Ministry of Gender, Youth and Social Services. These were followed by the Ministry of Land, Housing and Physical Planning, the Ministry of Water, Environment and Natural Resources, Ministry of Health Services, and the Ministry of Finance and Economic planning which recorded 99%, 98%, 92% and 89% respectively. The worst performers were the Ministry of Trade, Investments Industrializations and Cooperative Development, and the Ministry of Education, Culture and Sports which had an absorption rate of 27%, and 59% respectively.

**Table 6: Ministerial Development Expenditure**

Departments	Development (Kshs)	Development Expenditure	%
County Assembly	218,548,145	40,136,937	18%
Agriculture Livestock and Fisheries	451,804,433	384,340,339	85%
Education, Culture and Sports	197,417,921	116,417,885	59%
Gender, Youth and Social Service	38,744,700	38,744,700	100%
Finance	61,780,000	55,100,000	89%
Health Services	436,174,104	402,510,069	92%
Trade, Industrializations and Cooperative Development	28,092,667	9,387,547	33%
Lands, Housing and Physical Planning	526,851,158	522,276,690	99%
Office of the Governor	-	-	0%
County Public Service Board	17,800,000	17,800,000	100%
Public Service Management and Devolved Unit	45,793,535	31,993,535	70%
Public Works Roads and Transport	739,311,146	639,924,482	87%
Water, Environment and Natural Resources	1,523,765,038	1,486,077,960	98%
<b>TOTAL</b>	<b>4,286,082,848</b>	<b>3,744,710,145</b>	<b>87%</b>

Source: County Treasury, Mandera County Government

**Table 7: List of Development Projects with the Highest Expenditure in FY 2022/2023**

Table 7 provides a summary of development projects with the highest expenditure in the financial year.

Sector	Project Name	Project Location	Contract sum	Budget	Amount paid to date	Contract variation	Implementation status
			(Kshs)	(Kshs)	(Kshs)	(Kshs)	(%)
Water Services	Expansion Of Qofole Dam 20,000M3	Dandu	9,689,837	10,000,000	3,500,000	0	100%
Water Services	Expansion And Desilting Of Hardimtu Earth Pan	Dandu	9,998,990	10,000,000	5,000,000	0	100%
Water Services	Construction Of 20,000M3 Earth Pan At Lagkaro	Mandera West	9,996,583	10,000,000	4,689,837	0	100%
Water Services	Expansion And Desilting Of Qarsa Qoroma	Mandera West	9,989,650	10,000,000	3,500,000	0	100%
Water Services	Construction Of 60,000M3 Earth Pan At Qorobo Saglan	Dandu	30,499,460	30,499,460	28,500,000	0	100%
Water Services	Proposed Construction Of 30,000M3 Earth Pan At Adala Dimtu Earth Pan In Mandera West Sub County	Mandera West	14,480,000	15,500,000	14,480,000	0	100%
Water Services	Proposed Construction 60,000M3 Earth Pan At Dadach Dheera In Mandera West Sub County	Mandera West	30,900,000	31,000,000	25,900,000	0	100%

Water Services	Proposed Construction Of 20,000 M3 Earth Pan At Fulaley In Lagsure In Mandera West	Mandera West	12,000,000	12,000,000	12,000,000	0	100%
Water Services	Construction Of 20,000M3 Maari Dhanaba Earth Pan	Dandu	9,998,465	10,000,000	8,500,000	0	100%
Water Services	Construction Of Baaye Earthpan	Banisa	31,075,000.00	31,075,000.00	8,600,000	0	100%
Water Services	Proposed Construction Of 60,000M3 Sukela Dera Earth Pan	Mandera West	31,137,000.00	31,137,000.00	5,600,000	0	100%
Water Services	Proposed Construction Of 60,000M3 Silkin Earth Pan	Banisa	31,277,000.00	31,277,000.00	4,700,000	0	100%
Water Services	Proposed Construction Of 60,000M3 Chame Earth Pan	Banisa	31,877,040.00	31,877,040.00	4,750,000	0	100%
Water Services	Proposed Construction Of 60,000M3 Alungu Earth Pan	Lafey	32,147,000.00	32,147,000.00	13,500,000	0	100%
Water Services	Proposed Construction Of 60,000M3 Fino Earth Pan	Lafey	31,273,000	31,273,000	10,600,000	0	100%
Agriculture	Construction Of Kutulo(Malbe) Water Pan For Irrigation Project	Kutulo	253,013,296	40,774,646	312,000,000	62,761,350	98%
Agriculture	Construction Of	Mandera East	263,564,200	15,652,205		62,088,000	97%

	Koromey Irrigation Project						
Agriculture	Proposed Completion Of Regional Livestock	Mandera East	289,335,728	40,000,000	276,335,728	-	96%
Agriculture	Construction Of Slaughter House In Elwak	Elwak	104,959,82.40	30,252,033	83,762,213	-	90%

Source: County Treasury, Mandera County Government

### **2.3 Implication of FY 2022/2023 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2023 CFSP**

Fiscal responsibility is essential to creating a better, stronger and more prosperous administrative and financial management system in the Mandera County Government.

During the period under review, the County had planned to collect revenue amounting to Kshs. 12,713,843,988. At the close of the financial year, the County had received revenues amounting to Kshs. 12,532,166,405. This represented a revenue deficit of 1% (Kshs. 181,677,583) from the FY 2022/2023 approved supplementary target. This implies that the baseline ceilings for subsequent budgets ought to be adjusted considering the under-performance in local revenue collection in the FY 2022/2023. Consequently, this may affect the financial performance objectives stipulated in CFSP 2023.

The review of budget for FY 2022/2023 reveals that revenue underperformance was in both local revenue collection and external revenue. Therefore, the overall revenue performance in FY 2022/2023 points to the need for enhancement of local revenue collection measures and the National Government transfers as determined by the Commission for Revenue Allocation (CRA) is consistent in future.

Additional implications borders on the capacity of the County Government to implement its budget in the FY2023/2024 and in the subsequent years. In view of the foregoing, appropriate measures have been applied in the context of this CBROP, taking into account the budget outturn for FY 2022/2023. The County Treasury will work closely with the revenue agencies to improve local revenue collection.

## **Continuing in Fiscal Discipline and Responsibility Principles**

In line with the Constitution of Kenya 2010 and PFM Act 2012 Mandera County Government has adhered to the fiscal responsibilities as set out in the law as follows;

- i.** Over the medium term a minimum of 30 percent of the County Government's budget shall be allocated to the development expenditure. In the fiscal year under review, the County allocated Kshs. 4,286,082,848 which was 34% the County total approved supplementary budget for the FY 2022/2023.
- ii.** The County Government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the County Executive Member for Finance in regulations and approved by the County Assembly. The County expenditure on wages and salaries is about 34% which is below 35% set in the 2015 County Government regulations.
- iii.** The County debt shall be maintained at a sustainable level as approved by County Assembly and the County Government's recurrent expenditure shall not exceed the County Government's total revenue. During the period under review, the County Government did not borrow and when the regulations are set in place that allow County Governments to borrow, all the borrowings will be for financing of development projects only.
- iv.** A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future. The County Government has continued to adopt a more rational approach in revenues and expenditure forecasts based on acute environment and potential of the County to expand its revenue base.
- v.** Fiscal risks shall be managed prudently. The County Treasury has considered all possible risks and provided for unforeseen emergencies and disaster relief in the budget in the tune of Kshs. 500 million in the financial year under review.
- vi.** In line with the provisions of the PFM Act, 2012, a finance bill was prepared through a participatory, consultative and all-encompassing approach, and later submitted to the County Assembly for consideration and approval. Public participation in the process guarantees that the beneficiaries and stakeholders understands the charges thus minimizing the chances of resistance from the rates and fees payers.

## **Summary of the General Challenges affecting fiscal performance**

Mandera County faces a number of Fiscal challenges including;

- Cash flow challenges from the National Government
- Swelling wage bill
- Unreliable IFMIS connectivity challenges
- Staff capacity gaps
- Late approval of budget
- Insecurity/Terrorism Threats



## **CHAPTER THREE**

### **RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

#### **3.1 Introduction**

Mandera County Government operates within the dynamics of the national and global macroeconomic environment. The impact of global and national economic variability influences directly and indirectly the County fiscal decisions and operations. Any change in the national economic and financial trends have a huge impact on the County government's expenditure trends in the long run. Economic instabilities will lead to adverse national expenditure trends thereby negatively affecting the county government's development agenda. Further, Economic growth, measured quantitatively as the Gross Domestic Product (GDP) of a country is a parameter that influences National Government transfers to the Counties given the positive correlation between growth and national revenue performance. Exchange rate fluctuations also affect the County processes with currency depreciation making our imports more expensive. This greatly affects the manufacturing sector since it mostly depends on imported raw materials and intermediate goods in its industrial processes, leading to a slowdown in the county's industrialization. Interest rates affect the cost of local borrowing while inflation changes the costs of goods and services and may affect their affordability as per existing plans.

#### **3.2 Global and Regional Economic Development**

World economic growth slowed to 3.5 percent in 2022 from a growth of 6.3 percent in 2021 as high global inflation, energy and value chain disruptions, and impact of monetary policy tightening in most world economies weighed on economic activity. The growth is projected to slow down further to 3.0 percent in 2023 and 2024 due to the impact of ongoing monetary policy tightening to address inflationary pressures. Global inflationary pressures have responded to policy tightening but inflation exceeds central bank targets in most countries.

Recent actions by authorities to contain banking sector challenges in the United States and Swiss Banking have reduced the immediate risk of financial sector instability. However, intensification of the conflict in Ukraine, volatility in the global oil prices and extreme weather related shocks could weigh on the global economic outlook.

Advanced economies are projected to record a slower growth of 1.5 percent in 2023 and 1.4 percent in 2024 from 2.7 percent in 2022. About 93 percent of the countries in the advanced economies are

projected to have a lower growth in 2023 and 2024. This slowdown is largely driven by aggressive monetary policy tightening in advanced economies that have increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector.

Growth in the emerging market and developing economies, is projected to be broadly stable at 4.0 percent in 2023 and 4.1 percent in 2024, although with notable shifts across regions. The sluggish global growth, high inflation rates and the challenging global and domestic financial conditions continue to weigh on the growth for sub-Saharan Africa region. The region economic growth is projected to slow down to 3.5 percent in 2023 from 3.9 percent in 2022, before picking up to 4.1 percent in 2024.

### **3.2.1 Domestic Economic Development**

In the 10 years pre-COVID-19 pandemic, the economic growth averaged 5.0 percent whereas in the two years post COVID-19 pandemic the growth momentum picked up to average 6.2 percent. The Kenyan economy in 2022 demonstrated resilience in the face of severe multiple shocks that included the adverse impact of climate change, lingering effects of COVID-19, global supply chain disruption and the impact of Russia-Ukraine conflict. As such, the economic growth slowed down to 4.8 percent in 2022 from 7.6 percent in 2021.

In 2020, the economy received adequate rainfall that resulted in increased production in the agriculture sector growing by 4.6 percent. However, the country subsequently, experienced a severe climate related shock in the form of a severe drought that was also experienced in the Horn of Africa and the East African regions. The drought not only aggravated the inflationary pressures but also subjected millions of people to severe food insecurity, loss of lives, livelihoods and led to loss of livestock. This resulted in the contraction of the agriculture sector by 0.4 percent 2021 and 1.6 percent in 2022.

The performance of the industry sector slowed down to 3.5 percent in 2022 compared to a growth of 6.8 percent in 2021 on account of a slowdown in activities in the manufacturing, electricity and water supply and construction sub-sectors. In the year, services sector remained strong growing at 6.7 percent, with improved performance in information and communication, financial and insurance and professional, administrative and support services sub-sectors. There were also substantial growths in accommodation and food services, and transport and storage sub-sectors.

In the first quarter of 2023, real GDP growth was at 5.3 percent mainly due to a 5.8 percent recovery in

the agricultural activities that reflected improved rainfall conditions and the impact of fertilizer and seed subsidies provided to the farmers by the Government. The recovery in agriculture was reflected in enhanced production, especially of food crops that led to significant increase in export of vegetables and fruits.

Manufacturing sub-sector expanded by 2.0 percent in the first quarter of 2023 mainly supported by the manufacture of food products that included bakery products and processing and preservation of fish. In the non-food manufacturing the growth performance was supported by substantial growth in the manufacture of basic metals and fabricated metal products. Electricity and Water Supply sub-sector expanded by 2.3 percent supported by increased generation of electricity from renewable sources such as geothermal and wind that more than offset the decline in generation from hydroelectric sources. However, construction activities slowed down due to the decline in the volume of cement consumption and imports of various construction materials such as bitumen and iron and steel.

The activities in the services sector remained strong in the first quarter of 2023 growing by 6.0 percent largely characterized by significant growths in accommodation and food Service; information and communication technology; transportation and storage; financial and insurance; and wholesale and retail trade sub-sectors.

Available economic indicators in the first three quarters of 2023 remain strong with the continued recovery in the agricultural sector and sustained performance of the services sector. In this respect, economic growth is projected at 5.5 percent in 2023 and 5.7 percent in 2024 supported by broad-based private sector growth and sustained government investment in the nine priority value chains ( Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, public sector investments in infrastructure and implementation of prudent fiscal and monetary policies will continue to support economic activity.

### ***Inflation Developments***

Inflation remained above the Government target range of  $5\pm 2.5$  percent from June 2022 to June 2023. In order to anchor inflation expectations and bring down inflation within the target range, the Monetary Policy Committee (MPC) gradually raised the policy rate (Central Bank Rate (CBR)) from 7.50 percent in May 2022 to 10.50 percent in June 2023. The MPC retained the 10.50 percent in August 2023. Consequently, inflation declined significantly to 6.7 percent in August 2023, from a peak of 9.6 percent in October 2022. The decline largely reflects the easing of food prices and impact of monetary policy

tightening international developments and Government measures on zero rated imports. Nonetheless, sugar prices remained elevated driven by domestic and global factors.

Fuel inflation remained elevated driven by high energy prices. It increased to 14.2 percent in August 2023 from 8.6 percent in August 2022. The increase reflects gradual withdraw of the fuel subsidize from September 2022 and the upward adjustment of electricity tariff from April 2023. In addition, the upward adjustment of VAT on petroleum product in July 2023 from 8.0 percent to 16.0 percent exacted upward pressures on prices. However, prices of cooking gas continued to decline and moderated inflation reflecting the impact of the zero-rating of VAT on liquefied petroleum gas (LPG).

Core (non-food non-fuel) inflation increased from 3.2 percent in August 2022, to a peak of 4.4 percent in March 2023, and has declined to 3.7 percent in August 2023. The decline is attributed to the contractionary monetary policy aimed at taming the spillover effects of high energy prices.

### ***Monetary and Credit Developments***

Broad money supply, M3, grew by 14.3 percent in the year to July 2023 compared to a growth of 7.6 percent in the year to July 2022. The primary source of the increase in M3 was an improvement in the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. the NFA of the banking system in the year to July 2023 expanded by 56.6 percent compared to a contraction of 46.8 percent in the year to July 2022. The increase in net foreign assets, mainly reflected increase in commercial banks' foreign assets.

Net Domestic Assets (NDA) registered a growth of 10.2 percent in the year to July 2023, compared to a growth of 19.5 percent over a similar period in 2022. The growth in NDA was mainly supported by increase in domestic credit particularly resilient private sector credit and net lending to government. Growth of domestic credit extended by the banking system to the Government declined to a growth of 16.1 percent in the year to July 2023 compared to a growth of 25.4 percent in the year to July 2022. Lending to other public sector grew by 16.7 percent in the year to July 2023 mainly due to advances to parastatals.

Growth in private sector credit from the banking system remained resilient as business activities improved and grew by 10.3 percent in the year to July 2023 compared to a growth of 14.2 percent in the year to July 2022. Improved credit expansion was registered in various sub-sectors that include finance and insurance, mining, transport and communication, agriculture and manufacturing. On a monthly basis, credit extension contracted by 8.5 percent in the year to July 2023 reflecting further

tightening of the monetary policy in June 2023.

### ***Interest Rates Developments***

Reflecting the tight monetary policy stance, interest rates increased in the year to August 2023. The interbank rate increased to 12.5 percent in August 2023 compared to 5.4 percent in August 2022 while the 91-day Treasury Bills rate increased to 13.4 percent compared to 8.6 percent over the same period. The 182-day Treasury Bills rate increased to 13.4 percent in August 2023 from 9.5 percent in August 2022 while the 364-day also increased to 13.6 percent from 9.9 percent over the same period. The introduction of the interest rate corridor, in August 2023, is expected to align the interbank rate to the Central Bank Rate and thereby improve the transmission of the monetary policy.

Commercial banks average lending and deposit rates increased in the year to June 2023 in tandem with the tightening of the monetary policy stance. The average lending rate increased to 13.3 percent in June 2023 from 12.3 percent in June 2022 while the average deposit rate increased to 7.8 percent from 6.6 percent over the same period. Consequently, the average interest rate spread declined to 5.5 percent in June 2023 from 5.7 percent in June 2022.

### ***External Sector Developments***

The current account balance narrowed by 20.6 percent to US\$ 4,629.4 million (4.4 percent of GDP) in June 2023 from US\$5,833.9 million (5.1 percent of GDP) in June 2022, reflecting lower imports, strong performance of export of goods and services as well as increased remittances (Table 17). Improvement in trade and the continued recovery in tourism continues to boost export revenues in 2023. In the year to June 2023, exports grew by 2.1 percent primarily driven by improved receipts from tea and manufactured goods. The increase in receipts from tea exports reflects higher prices attributed to lower global supply due to drought amid resilient demand from traditional markets.

The continued recovery in tourism sector saw the number of tourists increase by 25.2 percent in the year to June 2023 and travel and transportation services receipts increased by 24.2 percent during the same period. Growth in imports decelerated by 6.1 percent in the 12 months to June 2023, as oil prices moderated and reduced imports for infrastructure related equipment. In this respect, the balance in the merchandise account improved by USD 1,316.3 million to a deficit of USD 10,678.0 million in June 2023. Receipts from remittances remained resilient and amounted to USD 4,017 million in the 12 months to June 2023, and were 0.1 percent higher compared to a similar period in 2022.

The capital account balance improved by USD 28.1 million to register a surplus of USD 189.7 million

in June 2023 compared to a surplus of USD 161.6 million in the similar period in 2022. Net financial inflows slowed down but remained vibrant at USD 4,061.5 million in June 2023 compared to USD 4,746.6 million in June 2022. The net financial inflows were mainly in the form of other investments, financial derivatives and direct investments. Portfolio investments registered a net outflow during the period.

The overall balance of payments was a surplus of USD 1,113.5 million (1.1 percent of GDP) in June 2023 from a surplus of USD 1,555.5 million (1.4 percent of GDP) in June 2022

### ***Foreign Exchange Reserves***

The banking system's foreign exchange holdings remained strong at USD 13,165.6 million in June 2023, an improvement from USD 12,580.6 million in June 2022. The official foreign exchange reserves held by the Central Bank stood at USD 8,036.7 million compared to USD 8,494.9 million over the same period. Commercial banks holdings improved to USD 5,128.8 million in June 2023 from USD 4,085.6 million in June 2022.

The official reserves in June 2023 represented 4.4 months of import cover as compared to the 4.9 months of import cover in June 2022. These reserves were above the minimum of 4.0 months of imports cover and provides adequate buffer against short-term shocks in the foreign exchange market.

### ***Exchange Rate Developments***

The Kenyan foreign exchange market remained under pressure as global economic uncertainty regarding the ongoing Russian-Ukraine conflict as well as increase in interest rates in advanced economies in response to inflationary pressures weighted on the exchange rate. Specifically, the headwind from a strengthening dollar, boosted by rising US interest rates and elevated commodity prices, the exchange rate to the Kenya shilling weakened at a rate of 20.5 percent in the 12 months to August 2023 compared to 9.3 percent in the 12 months to August 2022. The Kenya shilling exchanged at Ksh 143.9 in August 2023 compared to Ksh 119.5 in August 2022. Against the Euro, the Kenya shilling weakened to exchange at Ksh 157.1 in August 2023 compared to Ksh 121.0 in August 2022 while against the Sterling Pound the Kenyan shilling weakened to exchange at Ksh 182.9 compared to Ksh 143.5, over the same period. The Kenyan shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports receipts.

## ***Capital Markets Developments***

Activity in the capital markets slowed down in August 2023 compared to August 2022 as advanced economies tightened their monetary policy amid inflationary pressures. The NSE 20 Share Index declined to 1,540 points in August 2023 compared to 1,751 points in August 2022 while Market capitalization declined to KSh 1,545 billion from KSh 2,142 billion over the same period

### **3.3 Global and National Macro-Economic Outlook**

#### **3.3.1 Global Growth Outlook**

The global economic outlook remains highly uncertain with growth projected to moderate to 2.9 percent in 2023 from 3.2 percent in 2022 largely reflecting a slowdown in advanced economies despite a gradual pick up in the emerging market and developing economies. Advanced economies are projected to slow down by 1.0 percent in 2023 from 2.3 percent in 2022 mainly due to a slowdown in growth in the United States and the Euro area. Growth in the United States is projected to slow down due to the expected impact of a steeper tightening in monetary policy. Growth in the euro area is expected to be adversely affected by the spill overs from the war in Ukraine as well as the assumption of tighter financial conditions.

The emerging market and developing economies are projected to pick up to a growth of 3.9 percent in 2023 from a growth of 3.6 percent in 2022 albeit with varying performance across countries. The emerging and developing Asia is projected to pick up as a result of a more robust recovery in china despite a slowdown in India, while growth in the Latin America and the Caribbean and the Middle East and Central Asia are expected to slow down.

The Sub-Saharan African region is projected to pick up to a growth of 4.0 percent in 2023 from 3.8 percent in 2022 with the East and Southern African sub-region showing a sustained recovery from the recession. The DRC and Zambia are expected to benefit from rising metal prices in the short-and medium term and gain from the transition away from fossil fuels in the long term.

#### **3.3.2 Domestic Growth Outlook**

Kenya's economic performance is projected to remain strong and resilient over the medium term (Table 18 in calendar years and Annex Table 1 in fiscal years). The economy recorded a strong growth of 5.3 percent in the first quarter reflecting a strong recovery in agriculture sector and buoyant services sector including financial and insurance, information and communication, wholesale and retail trade and transport and storage. The economy is expected to remain strong and expand by 5.5 percent in 2023 (5.6 percent in FY 2023/24) and 5.7 percent in 2024 (5.9 percent in FY 2024/25).

This growth will be supported by the strong recovery in agriculture and resilient services sector that both drive the industrial sector. The adequate rainfall during the long rain season in most parts of the country and the anticipated short rains later in 2023 will continue to support activities in the agriculture, electricity, and water supply sectors. The improved availability of raw materials following the recovery in agriculture and a decline in global commodity prices will support food processing in the manufacturing sector. Additionally, activities in the construction sector will be boosted by the affordable housing programme. Services sector will be supported by resilient activities in the financial and insurance, information and communication, wholesale and retail trade and transport and storage, among others. The easing of global commodity prices and supply chain constraints coupled with robust private sector investment are expected to support domestic demand.

On the demand side, private consumption is expected to remain on a robust growth path in the near term. The easing of inflationary pressures will result in strong household disposable income, which in turn will support household consumption. The interventions by the Government through the Financial inclusion initiative popularly known as the Hustlers Fund will strengthen MSMEs thereby correcting market failures for the vast majority of Kenya's at the bottom of the pyramid. This will strengthen the private sector led growth opportunities. The multi-year fiscal consolidation program by the Government has been incorporated in the projections and is expected to lower the fiscal deficit and achieve a positive primary balance over the medium term. This will reduce debt vulnerabilities and strengthen debt sustainability and lead to improvement in investors' confidence, leading to robust private investment and economic growth over the medium term. The lower domestic financing needs of the Government, will enable the expanded lending to the private sector by the banking sector.

The development spending in the budget will be retained at an average of 5.6 percent of GDP so as not to impact on growth momentum. This will enhance Government investment in the nine priority value chains (Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, it will support investments in key projects under the Bottom-Up Economic Transformation Agenda (BETA) including construction of dams, improvement of road networks and ports and laying of additional National Fiber Optic network. Enhanced digitalization, is expected to improve efficiency and productivity in the economy. In particular, investment in digital superhighway will result in enhanced connectivity and access to broadband services which will lower the cost of doing business, enhance efficiency and create employment opportunity.



Kenya's exports of goods and services is expected to continue strengthening supported by receipts from tourism and implementation of crops and livestock value chains, specifically, exports of tea, coffee, vegetables and fresh horticultural produce, among others. The expected recovery of Kenya's trading partners and the implementation of Africa Continental Free Trade Area (AfCFTA) will enhance demand for exports of Kenyan manufactured products. Current account deficit will average 5.4 percent of GDP between 2023 and 2027. The projected robust domestic demand sustained by private investment, will sustain imports of raw materials, machinery and equipment for private construction, and household consumption. In addition, global oil price continues to stabilize lowering the oil import bill. In the Balance of Payments Statement, external financing needs will be met mainly by equity inflows and foreign direct investment given the conducive business climate that Government has created particularly the fiscal policy predictability. Improvement in the current account, boosted by robust export earnings and strong remittance inflows will continue to support stability in the foreign exchange market.

### **3.3.3 Monetary Policy Outlook**

The monetary policy stance is aimed at achieving price stability and providing adequate credit to support economic activity. Consequently, overall inflation is expected to remain within the Government target range of  $5\pm 2.5$  percent in the medium term. This will be supported by muted demand pressures consistent with prudent monetary policy and easing domestic and global food prices. In addition, Government measures to support sufficient supply of staple food items through zero rated imports and lower the cost of production through the ongoing fertilizer and seeds subsidy program will exact downward pressure on inflation.

The Central Bank has continued to implement reforms to Modernize its Monetary Policy Framework and Operations in Kenya, designed to enhance monetary policy transmission. In particular, CBK has implemented a new monetary policy framework based on inflation targeting. To facilitate alignment of the short term rates with the Central Bank Rate (CBR), reduce volatility in the interbank rate and improve monetary policy transmission, CBK has implemented an interest rate corridor. The interest rate corridor is set at  $\pm 250$  basis points around the CBR. In addition, the CBK has reduced the applicable interest rate to the Discount Window from 600 basis points to 400 basis points above CBR to improve access to the Window.

The Central Bank has also introduced DhowCSD, an upgraded Central Securities Depository infrastructure, that offers a simple, efficient, and secure portal by the Central Bank of Kenya (CBK) to

enable the public to invest in Government of Kenya securities. The platform enables investors to participate and trade in Government securities market (Treasury Bills and Bonds) on their mobile phones and on web based devices. The DhowCSD will transform Kenya's financial markets through enhanced operational efficiency and expansion of digital access, market deepening for broader financial inclusion, and improved monetary policy operations. Additionally, the DhowCSD will also improve the functioning of the interbank market by facilitating collateralized lending amongst commercial banks and further reduce segmentation in the interbank market.

### **3.3.4 External Sector Outlook**

The Kenya Shilling is expected to remain stable in 2023 on account of a stable current account deficit.

### **3.3.5 Fiscal Policy Outlook**

Fiscal policy over the medium-term aims at enhancing revenue mobilization, expenditure rationalization and strengthening management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects. This is geared towards economic recovery to support sustained, rapid and inclusive economic growth, safeguard livelihoods and continue the fiscal consolidation programme to create fiscal space for the implementation of the "BETA" Agenda.

## **3.4 County Specific Outlook**

The major economic activities in the County include livestock farming, small-scale trade and quarrying. Nomadic pastoralism is the backbone of Mandera County with camels, goats, sheep and cattle being the main type of livestock reared. The region's vast pasture land has allowed this activity to be viable. But long droughts in the region and rampant diseases pose a threat to the livestock year in year out affecting livestock production. This further worsened the food insecurity situation in the county, thus forcing the county to inject resources in the Agriculture and Livestock sector.

The County's poor roads cause delays in deliveries of commodities and increase in transport costs that are in turn transferred to the consumer, with prices varying upward to 65% on some products as compared to recommended retail prices in other areas. Improvement of infrastructure within the County, in conjunction with the National Government will enable other productive sectors to thrive. Investment in Trade, Industrialization and Cooperative sector will help in the creation of employment in the

informal sector. The construction of major roads cutting across the County will ease movement and transportation of goods and services; this will open up the County for trade and development. To this effect the county has invested in road construction which has greatly improved accessibility to market places as well as movement of human capital to all parts of the county.

The County government has made significant investments in roads, health and water structures. The outbreak of the Covid-19 pandemic clearly restated the role of health in economic development. Healthcare system has improved tremendously through provision of medical supplies, construction of maternities and dispensaries. Construction and equipping of additional boreholes has improved water accessibility for both human and animals. The County Government has also expanded agricultural growth through the supply of pump sets, construction of canals, provision free certified seeds and fertilizers to improve productivity. Livestock development and value addition to livestock products continued through improved access to livestock markets such as construction and repairs of existing livestock markets, provision of livestock feeds, improved animal health and general disease control. To avoid overreliance on rain fed agriculture and ensure food sustainability, the county government is committed to investing in water and irrigation programmes.

In an endeavour to uplift the lives of the vulnerable members, the county provided cash transfers, relief food, and housing to vulnerable families in every sub-county of Mandera. In addition, all the emerging incidences on disasters were timely reported and responded to during the financial year.

The economy of Mandera County for the FY 2024/2025 is likely to be suppressed due to restrained activities in retail trade as a result of border closures with the neighboring Somalia and Ethiopia. In order to remain resilient, the County government will focus on implementing interventions towards post-Covid-19 recovery. The county government will continue undertaking appropriate measures to put the county economy on an improved growth path in the medium term.

### **3.5 Medium Term Fiscal Framework**

The Government of Kenya has adopted a policy of expenditure prioritization with a view to achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies, implementation of the constitution, creation of employment opportunities and improving the general welfare of the people.

The County Government is committed to fiscal discipline in order to promote productive sector growth and overall economic growth. In this regard, expenditure management and revenue administration reforms have been implemented with ministries expected to adopt the culture of doing more with less that is available with a view to promote sustainability and affordability. Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception in the county.

In the Financial year 2023/2024, Mandera County Government Administration will work to implement the Mandera County CIDP III (2023-2027) which is inclusive of the “BETA” agenda, the 2<sup>nd</sup> Governor’s Transformative agenda, the County’s Flagship Projects, the County residents’ aspirations among Other Departmental Projects and initiatives in order to achieve the issues affecting the Mandera County residents as stipulated in the CIDP, and at the same time revive the County’s Economy.

For the County Government, all the development programs will revolve around the national policy although emphasis will be placed on the funding of devolved functions which is the core business of the County Government. The following areas will receive the greatest attention in the 2024/2025 budget:

- Creation of key infrastructural facilities and public works necessary for stimulating Countywide economic growth.
- Provision of water and food security
- Enhanced good governance, transparency and accountability in the delivery of public goods and service.
- Promotion of social economic development and stability.
- Promotion of trade and commerce to spur economic growth and development.
- Promotion of environmental protection and proper and prudent use of land resource.
- Completion of all ongoing projects and payment of all pending liabilities.

### **3.6 Risks to the Economic Outlook**

The Mandera County Government has a good prospect of performing better in the forthcoming financial year. However, the following factors may pose considerable risks to the realization of the County’s noble objectives:

- On the external front, the key downside risks include: uncertainty about the global outlook, reflecting adverse effects of the war in Ukraine, inflationary risks (from rising prices of food and oil), continuing COVID-19 pandemic related disruptions, and supply chain constraints as well as increased global financial markets volatility amid the tightening of monetary policy in advanced economies.
- On the domestic front, the emergence of new Omicron COVID-19 variants may occasion restrictive measures. Other risks relate to lower agricultural output due to potential adverse weather conditions.
- Exposure to risks arising from public expenditure pressures, particularly wage and security related recurrent expenditures and the erratic weather associated shocks that could have negative impact on energy generation and agricultural output leading to higher inflation that could slow down growth.
- Overreliance by Counties on equitable share of revenue hence exposing them to fiscal shocks occasioned by revenue underperformance at the national level
- Delayed disbursement of funds from the exchequer is another fiscal risk that the county might run into. Delayed disbursement resulting from disagreements on revenue sharing formula and division of revenue leads to late owing of obligation by the county and might lead to interest charges by the county suppliers and service providers. This increases the county's operating costs and leads further to accumulation of pending bills. It negatively affects service delivery, budget absorption and delays submission of statutory deductions.
- There is risk of decreased funding for County Governments due to the austerity measures adopted from time to time by National Government due to biting cash crunches.
- Insecurity that hampers the smooth operations of county programs/projects and scares away investors and skilled manpower. Terrorism acts pose a threat to a country's economic growth and development trajectories as it leads to destruction of property, loss of lives, inhibited foreign investment and diversion of public funds to help counter the same. Most of these attacks are usually instigated by the Al-Shabaab who has been noted to frequently use ambushes and IEDs to target Kenyan security forces, other civil servants and Government vehicles in the County.
- Technological risks i.e. Frequent IFMIS breakdowns and challenges that slow down the county's ability to absorb funds in a timely manner.
- Frequent boarder closures. The closure of Kenya-Somalia boarder from time to time may disrupt movement of goods and services thereby leading to low own source revenue collections for the

county.

- Existence of pending liabilities that will consume large amount of funds.
- Political disturbances from the county assembly and frequent litigations from members of public have the potential to delay timely implementation of projects. Litigations and court injunctions can also derail timely execution of the Budget. These litigations can arise from county's processes especially procurement where perceived unfair competition may land the county in a court of law. Orders to repeat the whole procurement process will expose the county to disadvantages of time value of money, increase operation costs and lose valuable time in delivering the Budget.
- Persistent drought and other calamities that lead to deviation of resources. Mandera County is prone to both natural and human inflicted hazards. Losses resulting from these disasters can be economic, environmental and social, reducing the coping abilities of the affected population and increase vulnerability to recurring disasters. Once a disaster occurs the Government is always obligated to prevent social welfare reduction by incurring cost of returning the citizen's welfare to normalcy. This in turn has fiscal implications. Recurring droughts and floods lead to stresses on health, fragile ecosystem and water system, famine and displacement. The expansion of informal settlements as a result of high population growth in urban areas is also at risk of water scarcity, flooding and heat.
- Financial integrity.

### **3.7 Measures to Mitigate on the Risks**

The National Government has faced difficult policy trade-offs to secure economic recovery and navigate existing macroeconomic challenges amidst diminishing fiscal space. Among the fiscal measures implemented by the National Government to minimize the adverse impact of these emerging issues to the Kenyan economy include, among others:

- Subsidizing pump prices through the Petroleum Development Levy Fund;
- Reduction in electricity tariff by 15 percent to lower cost of power;
- Granting waiver of import duty on 540,000 metric tonnes of white non-genetically modified (non-GMO) imported into the country; and waived for a period of 3 months, the Railway Development Levy and the Import Declaration Fee on the importation of the gazetted white maize;

- Implemented Fertilizer Subsidy - to farmers during the April planting season (Ksh 3.0 billion) and a further Ksh 2.7 billion for the next planting season in October 2022;
- Reduced the VAT rate on LPG from 16% to 8% in the Finance Act, 2022;
- Increased the minimum wage for low earners by 12 percent with effect from 1st May, 2022.

The County Government is continually monitoring these risks and will employ the following monetary and fiscal policy measures to mitigate on the risks to the outlook and preserve macroeconomic stability and strengthen resilience in the County economy;

- Enhancing Own Source Revenue collection to reduce over reliance on National Government Funding and disbursements. The County will enhance the capacity of the Directorate of Revenue to ensure efficiency in revenue collection;
- Timely initiation of the procurement processes for development projects;
- Civic education- building the capacities for communities to understand the roles played by both the National and County Government to avoid scenarios where the residents demand the County Government starts planning and financing of functions under the National Government or vice versa;
- Proper Coordination with the National Government Departments in execution of concurrent functions;
- Improving the ease of doing business in the County and creating conducive social and economic environment in the County to attract private investments while also encouraging innovation, growth and expansion of economic and employment opportunities;
- Investment in staff capacity development, retention and productivity;
- Developing of supportive systems and frameworks e.g. M&E, Revenue Collection, and Investment Promotion;
- The County will apply the spirit of the Public Procurement and Disposal Act, 2015 which explicitly outlines how procurement should be conducted to the procurement risks.
- Preach peace to all political leaders and champion unity of purpose;
- Pursue reforms that will improve the country's security and create a conducive business environment that will consistently attract foreign investment. Notable reforms continue to be undertaken and encompass the development of counter-terrorism strategies that entail cooperation among all the security agencies, enhanced training of security personnel, the

adoption and use of technology by the security agencies in detecting crime, collaboration with the local communities on matters concerning security, acquisition of modern security equipment and awareness creation among Kenyans with regard to terrorism and crime acts.

- Focus on developing the County Infrastructure mainly the roads, energy, public works and physical planning.
- Mainstreaming of crosscutting issues especially on youth, women and persons with disability on development matters.
- Value addition for agricultural produce, horticulture and floriculture.
- Improved marketing channels for agricultural produce.
- Strengthening the Agricultural Mechanization Station to offer mechanization services.
- Increase subsidies for agricultural inputs especially certified seeds and fertilizer.
- Development of a comprehensive County land use policy.
- Lobbying with the National Treasury for timely and adequate release of funds.
- In an effort to build public trust and both domestic and international investor`s confidence in corporate body operating in the country, the Government will continue to enhance good corporate governance.
- Strict adherence to the provisions of the law and existing legal frameworks
- The Public Finance Management Act, 2012 section 110 provides for establishment of an emergency fund to allow for forward budgeting and appropriation for funds for emergencies or amendment of the budget through a supplementary. The Budget will always be cognizant of natural calamities like floods and famine which may befall the county and force the county to rework its budget to accommodate the situation. This will divert funds from strategic areas and affect smooth implementation of the programmes in the Budget.
- Strengthen emergency response system including medical services to reduce the spread of pandemic, fire, floods, locusts and other natural catastrophes.



## **CHAPTER FOUR**

### **RESOURCE ALLOCATION FRAMEWORK**

#### **4.1 Introduction**

Mandera County Government's medium term expenditure framework (MTEF) will continue to focus expenditure on priority sectors by reducing non-priority expenditures. All proposed projects will be evaluated to ensure their appropriateness in addressing the County's core objectives and aspirations. The Third Mandera County Integrated Development Plan (2023-2027), will be used to guide identification of investment programmes and projects by departments as well as guaranteeing regional distribution balance in terms of development projects. Therefore, it is imperative to note that the only projects and programmes to be funded in the MTEF are those captured in the CIDP III. But for year on year basis and including the following financial year, the resource allocation will be based on the Annual Development Plans.

In terms of proposed allocations for FY 2024/2025, the health, social sectors, early childhood education, and vocational training will receive adequate resources. These sectors are already receiving a significant share of resources in the budget and are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate and achieve their strategic objectives.

On improving infrastructure, the County Government will continue to commit a substantial share of resources targeting physical infrastructures, such as roads, energy, water and irrigation. The funding to these sectors will increase interconnectivity, communication, reliable and affordable energy, as well as increased access to clean water for domestic use and irrigation projects.

Further, the County Government will invest heavily in projects under Departments of Roads & Public Works, Lands, Housing & Physical Planning, Culture, Sports & Youth Development, Trade and Cooperative Development. The County Government will in particular ensure that all the ongoing projects under these sectors are fast tracked and completed.

#### **4.2 Summary of the Resource Allocation Criteria**

The allocation of resources to projects is based on;

- (i.) Completion and operationalization of ongoing projects;
- (ii.) High impact/flagship projects should be given priority;
- (iii.) Development of key infrastructure facilities and public works Countywide to stimulate growth, create employment and reduce poverty;
- (iv.) Targeted Socio-Economic Sector enablers;
- (v.) Agriculture sector to create stable incomes and reduces poverty;
- (vi.) Programmes geared towards Economic recovery;
- (vii.) Linkage of the programmes with the Objectives of the Third CIDP;
- (viii.) Degree to which a programmes addresses Core Poverty Interventions and the National BETA Agenda;
- (ix.) Degree to which the programmes is addressing the Core Mandate of the Department;
- (x.) Enhancing Governance, Transparency and Accountability in the delivery of public goods and service;
- (xi.) Cost effectiveness and sustainability of the Programmes;
- (xii.) Programmes that communities/stakeholders have identified and recognized as important through public participation fora;
- (xiii.) Linkage of the programme with the priorities of Medium-Term Plan IV of the Vision 2030;
- (xiv.) Extent to which the Programme seeks to address viable stalled projects and verified pending bills; and
- (xv.) Requirements for furtherance and implementation of the Constitution

### **4.3 Revenue Outlook**

In the FY 2024/2025, Mandera County expects a total resource envelope of about 13 billion. The County's main source of revenue has been the equitable share from National Government and this will continue to be the case in the coming Financial Year. The County expects an increase in its equitable share for FY 2024/2025 due to larger audited National Government budget accounts. Other principal sources of revenue for the County include Conditional Grants from the World Bank, DANIDA, Youth Polytechnics Support Grant, Ministry of Agriculture (GoK) and local revenue receipts.

The County Treasury will continue to focus extensively on establishing structural reforms aimed at rationalization of revenue collection procedures, harmonization of local revenue policies as well as decentralization of local revenue collections to the ward level. These measures have already yielded results as evidenced by increased collections experienced in the most recent financial years. We, therefore, anticipate a local revenue collection over 300 million for FY 2024/2025. The National Treasury has directed Counties to maintain a balanced budget. To realize this, the County will continue to explore long term and innovative revenue raising measures such as public private partnerships (PPP) to achieve its development objectives in the face of limited resources.

Finally, the proposed budget for FY 2024/2025 will be rolled out on the background of updated medium term framework and outlook with expenditure ceilings for the ministries being provided in the 2024 County Fiscal Strategy Paper to be released in February 2024.

#### **4.4 Medium-Term Expenditure Framework**

The Government will continue with its policy of expenditure prioritization with a view to supporting economic recovery and achieving its transformative development agenda. This agenda is anchored on provision of core services, creation of employment opportunities improving the general welfare of the people and ensuring equity while minimizing costs through the elimination of duplication and inefficiencies.

Mandera County Government has continued to prioritize key strategic interventions across all departments to accelerate economic growth for social economic transformation and prosperity. The main areas being boosting agriculture productivity, improved access to quality health care and clean water, expanding access to affordable energy access, empowering youth and promoting education and facilitating infrastructural development.

Using the lessons learnt in the previous two phases of devolution the county will continue to allocate resources to key result areas that will spur economic growth and development. The county will also continue adopting new reforms in its budget expenditure management and deepen financial management reforms. A lot of capacity building on public finance has taken place through the KDSP in the previous phases of devolution. This has sensitized key officials on key areas such as budgeting and procurement.

Key infrastructural projects such as the County headquarter, the tarmacking of Mandera town roads and the Mandera water system by ADB have been completed to elevate the County's economic prospects. The County with its new reforms and automation of local revenue collections expects to avoid big revenue shortfalls that lead to budgets deficits.

Despite the positive outlook in the medium term, there are risks to the County's medium term expenditure framework such as insecurity, limited resources, long droughts, funds delays, the re-emergence of Covid-19 pandemic, and political disturbances. The County will monitor these risks and will adopt appropriate measures to safeguard the economic welfare and stability of the population.

## **CHAPTER FIVE**

### **CONCLUSION AND NEXT STEPS**

The 2023 CBROP has been prepared in accordance with the PFM Act, 2012 and its Regulations. The document provides an overview of the government's financial performance for the FY 2022/2023 including compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act. The 2023 CBROP has highlighted the key County Government policies and objectives that will underpin the creation and implementation of the FY 2023/2024 budget.

The FY 2024/25 and the Medium Term Budget is being prepared against a background of economic slowdown occasioned by the ongoing Russia-Ukraine conflict, effects of the COVID-19 containment measures, higher-than expected inflation worldwide triggered by higher global oil and food prices and the impact of the global monetary policy that has created tighter financial condition. Nonetheless, the growth outlook is positive. The fiscal outcome for the FY 2024/25 is projected to improve supported by the fiscal consolidation policies driven by continued reforms in tax legislation and administration. This outlook will be reinforced by the ongoing implementation of the strategic priorities of the Government under the “Big Four” Agenda and the Economic Recovery Strategy. The economic growth over the medium term will further be supported by implementation of strategic interventions contained in the Fourth Medium Term Plan (2023-2027) of the Vision 2030 aimed at driving the economy towards a sustainable growth path.

The strong revenue performance in the FY 2022/23 offers a strong base for supporting the expenditure estimates in the FY 2024/25 and the Medium Term Budget.

Given the tight resource constraints amidst significant revenue shortfalls occasioned by the impact of the ongoing Russia-Ukraine conflict, effects of COVID-19 containment measures, elevated inflationary pressures, volatile financial markets, and persistent supply chain disruptions at the National level, Mandera County Government will not only continue to ensure proper prioritization of public expenditures to the most impactful programmes with highest welfare benefits to its citizens but also focus on revenue mobilization and address the decline revenue trends. As such, the creation of the FY 2023/2024 budget will be broad based and consultative. To achieve this, the accounting officers have already been advised through budget circular issued in the month of August 2021 to form Sector Working Groups (SWGs). The SWGs will do a detailed and careful costing of various

programs and projects and ensure the key priorities of every sector are articulated in the coming budget. These SWGs is the only vehicle through which county ministries can bid for resources and justify allocations.

The 2024 CFSP which will be issued mid-February next year will provide a more updated fiscal framework and will add more flesh to the information already provided in this CBROP. Further, the CFSP will give a clear budget ceiling to every sector. This will enable SWGs to prioritize their projects and come up with a balanced budget that accommodates their priority programs.